

Message Text

CONFIDENTIAL

PAGE 01 KUWAIT 01160 131031Z

20

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 PRS-01

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R 131005Z MAR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2496

INFO AMEMBASSY JIDDA

AMEMBASSY TEHRAN

AMEMBASSY ABU DHABI

AMEMBASSY DOHA

AMEMBASSY LONDON

C O N F I D E N T I A L KUWAIT 1160

E.O. 11652: GDS

TAGS: ENRG KU

SUBJECT: GULF-BP TALKS WITH GOK

REF: KUWAIT 1055 (NOTAL)

1. JIMMY LEE AND JOHN SUTCLIFFE OF GULF AND BP ARRIVED AS SCHEDULED THIS WEEK (REFTEL) TO DISCUSS THEIR REMAINING EQUITY IN KUWAIT OIL COMPANY WITH MIN OF OIL KAZEMI. ACCORDING LEE AND OTHER GULF REPS, PICTURE FOR COMPANIES RATHER GRIM AFTER FIRST ROUND OF TALKS ON NEW ARRANGEMENTS OF GULF AND BP WITH KOC JUST COMPLETED. THEY HAVE DESCRIBED PRESENT SITUATION AS FOLLOWS:

2. MIN OF OIL KAZEMI AT MEETING MARCH 12 READ OFF STATEMENT TO EFFECT THAT GOK HAD HAD WONDERFUL 50 YEARS OF ASSOCIATION (SIC) WITH COMPANIES, AND NOW IT WAS TIME FOR COMPLETE CHANGE. GOK PREPARED OFFER COMPANIES LONG-TERM CRUDE CONTRACTS AT
CONFIDENTIAL

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PAGE 02 KUWAIT 01160 131031Z

"OPEC PRICE" (I.E. MARKET PRICE), NO LOWER. TAKE-OVER OF GULF-

BP 40 PERCENT EQUITY WAS AS OF MARCH 5, DATE ALSO OF NEW PRICING ARRANGEMENTS. COMPANIES IN PRINCIPLE ENTITLED TO COMPENSATION FOR LOST EQUITY, BUT GOK SUGGESTED "AS GESTURE OF GOOD WILL" COMPANIES DONATE COMPENSATION TO KUWAIT UNIVERSITY. ONCE NEW AGREEMENT ACHIEVED, COMPANIES AND GOK COULD COOPERATE ON "MANY THINGS", SUCH AS FOR EXAMPLE KUWAIT'S PETROCHEMICAL PROJECTS. KAZEMI THEN LEFT MEETING WHICH, DURING ENSURING DISCUSSION WITH MIN OF OIL OFFICIALS, PRODUCED NO EVIDENCE OF KUWAITI FLEXIBILITY ON ABOVE POINTS.

3. LEE AND SUTCLIFFE COMPOSED LETTER TO MIN OF OIL AFTER FIRST MEETING STATING THAT COMPANIES WILLING DISCUSS NEW ARRANGEMENTS WHICH SHOULD, HOWEVER, REFLECT PREVIOUS ECONOMIC BENEFITS TO COMPANIES; OR SHOULD BE AT LEAST AS FAVORABLE AS OTHER AGREEMENTS IN AREA. LETTER SAID IF AGREEMENT COULD BE ACHIEVED ON FEE FOR PACKAGE OF SERVICES RENDERED KOC BY GULF AND BP, COMPANIES PREPARED ENTER INTO LONG TERM CRUDE CONTRACT WITH KOC. COMPENSATION FOR LOST 40 PERCENT EQUITY SHOULD BE GIVEN, AND GOK SHOULD HONOR PRICING AGREEMENT FOR FIRST QUARTER OF THIS YEAR, AFTER WHICH NEW ARRANGEMENT COULD BE NEGOTIATED.

4. LEE-SUTCLIFFE LETTER DELIVERED TO KAZEMI EVENING OF MARCH 12 BUT NEGOTIATIONS HAD NOT MOVED FORWARD AS OF MORNING MARCH 13. FURTHER CONVERSATION WITH MINISTRY OF OIL OFFICIALS, ESPECIALLY HEAD OF OIL ECONOMICS SECTION ALI KHALIFA, HAS PRODUCED ONLY THE KUWAITI VIEW THAT THERE SHOULD BE NO COMPENSATION, THAT TWO PERCENT FEE SUGGESTED BY COMPANIES IS TOO HIGH, AND MARCH 5 DATE FOR NEW AGREEMENT IS KUWAIT COUNCIL OF MINISTERS DECISION. ALI KHALIFA TOLD COMPANY REPS GOK WANTED "BETTER ECONOMIC TERMS THIS TIME."

5. GULF REPS SAID GOK CLEARLY IN A HURRY TO CONCLUDE NEW AGREEMENT WHEREAS, UNDER CIRCUMSTANCES, COMPANIES OBVIOUSLY NOT IN SUCH A RUSH. LEE SAID GULF PRES DORSEY PHONED HIM TO SAY HE HAD RECEIVED WORD THAT "WASHINGTON HAS SOMETHING TO TELL US" (AND LEE HAS ALREADY LEFT FOR LONDON TO FIND OUT WHAT IT IS). GULF-BP REPS ALSO ARE HOPING FOR INFORMATION ON ARRANGEMENTS BEING DISCUSSED IN SAUDI ARABIA THAT COULD BE HELPFUL. GULF REPS ALSO SAID THEY TOLD ALI KHALIFA COMPANIES PREPARED TALK ABOUT LONG TERM CRUDE CONTRACT AFTER SATISFACTORY AGREEMENT CONFIDENTIAL

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PAGE 03 KUWAIT 01160 131031Z

ACHIEVED ON PREVIOUS ARRANGEMENTS, INCLUDING FIRST QUARTER OF 1975, FINAL SETTLEMENT OF ACCOUNTS INVOLVING COMPENSATION AND BUY-BACK CRUDE IN 1973, AND TAX AND ROYALTY PAYMENTS APPLICABLE TO LPG IN 1974. ALI KHALIFA, ON OTHER HAND, WANTS DISCUSS LONG TERM CRUDE COMMITMENTS FIRST.

6. COMMENT: GULF AND BP CLEARLY UPSET BY APPARENT UNCOMPROMISING ATTITUDE OF GOK, AND SUDDENNESS OF ITS ATTACK. THEY HOPE

THAT ARRANGEMENTS BEING DISCUSSED IN OTHER OPEC COUNTRIES,
PARTICULARLY SAUDI ARABIA, WILL HAVE EFFECT OF SOFTENING PRESENT
KUWAITI TERMS; AND THEY HOPE PRIME MIN JABER AL-AHMAD WILL BE
WILLING TAKE ANOTHER LOOK ALSO. WE BELIEVE LATTER HOPE HAS MORE
POTENTIAL THAN THE FORMER.
STOLTZFUS

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